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AT RICHMOND, July 15, 1998

APPLICATION OF

CASE NO. PUA980005

WASHINGTON GAS LIGHT COMPANY

For authority to engage in certain affiliate
transactions

ORDER GRANTING AUTHORITY

On February 6, 1998, Washington Gas Light Company (“Washington Gas,” “the Company,” “the Applicant”) filed an application with the Commission pursuant to the Affiliates Act. In its application, Washington Gas requests authority to engage in certain affiliate transactions to permit the participation by Washington Gas Energy Services, Inc. (“WGES”), in an experimental delivery service program that Washington Gas proposes to make available on a limited-term, pilot basis, to its customers requiring gas service on a firm basis. As stated in the application, WGES is a wholly owned indirect subsidiary of Washington Gas engaged in the marketing of natural gas to retail customers. WGES was formerly incorporated as Washington Resources Group, Inc. (“WRG”), but changed its name to Washington Gas Energy Services, Inc., effective July 17, 1996. A Service Agreement between WGES and the Company was approved by the Commission on August 8, 1988, in Case No. PUA880021.

On December 22, 1997, Washington Gas filed an application with the Commission, Case No. PUE971024, requesting approval of an experimental delivery service program to be made available, on a limited-term, pilot basis, to the Company’s residential, commercial, and industrial

and group metered apartment customers requiring gas service on a firm basis. Washington Gas proposes to begin the program on or before June 1, 1998. The program is a two-year program. However, since Washington Gas proposes rolling enrollment for some services in the pilot program, firm delivery service under the program may extend for up to three years.¹

As indicated in the application, in the first year of the program up to ten per cent of Washington Gas' customers served under Rate Schedule Nos. 1, 2, and 3 could participate in the program. In the second year, up to twenty per cent of the Company's customers served under Rate Schedule Nos. 1, 2, and 3 could participate. In both years, services will be available to customers and to gas suppliers on a first-come, first-served basis. Gas suppliers may acquire the Company's upstream pipeline capacity to have gas supplies delivered to Washington Gas' city-gate but are not required to do so.

The terms and conditions under which third party suppliers may supply gas to customers under the proposed experimental Rate Schedule Nos. 1A, 2A, and 3A are set forth in the Company's proposed experimental Rate Schedule No. 9, Firm Delivery Service Pilot Program Gas Supplier Agreement. Proposed Rate Schedule No. 9 sets forth the applicable rates as well as penalties for failure to comply with any provision of the rate schedule. Rate Schedule No. 9 sets forth certain obligations on participating gas suppliers to cooperate with customers as well as Standards of Conduct applicable to Washington Gas with respect to its treatment of gas suppliers participating in the experimental delivery service program. In administering the program, the Company must treat all gas suppliers similarly in all respects, regardless of affiliation, and may not give any preferences to WGES or to any other participating gas supplier. All revenues received

¹ A customer can enter the second year of the program at any time and would be entitled to one year of service from the date service begins.

by Washington Gas under the proposed Rate Schedule No. 9 will be credited to firm ratepayers through credits to the Purchased Gas Charge.

Like other gas suppliers participating in Washington Gas' pilot program, WGES may elect to utilize the Company's capacity on upstream interstate pipelines to arrange deliveries of gas supplies to Washington Gas' city-gate. As explained in the Company's application in Case No. PUE971024, due to operating limitations, Washington Gas will release upstream interstate pipeline capacity only on Columbia Gas Transmission Corporation ("Columbia"). To ensure that gas suppliers can obtain sufficient upstream pipeline capacity to serve Washington Gas' customers who have chosen to participate in the pilot program, Washington Gas may assign a portion of its capacity on Columbia to such suppliers at the Federal Energy Regulatory Commission ("FERC")-approved (maximum) rate.

Since Columbia's charges are below Washington Gas' average pipeline charge, any gas supplier receiving an assignment of Washington Gas' upstream pipeline capacity in the pilot program will also be subject to a Capacity Equalization Charge designed to ensure that they pay the average cost of Washington Gas' upstream pipeline capacity. Available upstream pipeline capacity after gas suppliers participating in the pilot program have had the opportunity to acquire such capacity through the assignment process may be posted on Columbia's Electronic Bulletin Board ("EBB"). Washington Gas may accept bids or enter into pre-arranged deals that are subsequently posted on Columbia's EBB and become subject to bidding by other interested gas suppliers. The Capacity Equalization Charge will not apply to capacity acquired in this manner. WGES may negotiate with the Company to acquire upstream pipeline capacity in this manner. All capacity release transactions with WGES and other gas suppliers participating in the pilot program will be pursuant to, and in accordance with, FERC regulations.

Washington Gas also plans to make billing services available to WGES and all other gas suppliers that participate in the program. WGES and any other suppliers that wish to obtain the Company's billing services will be afforded those services under the same terms and conditions.

Washington Gas states that all services offered to WGES will be offered to all other suppliers participating in the program under the same terms and conditions. Where applicable, charges for all services provided to participants in the program, including WGES, will be in accordance with rates specified in Washington Gas' tariff on file with the Commission. Charges for billing services will be as set forth in the Billing Agreement. All suppliers participating in the program, including WGES, will pay the same rate for such services. Charges for the Company's upstream pipeline capacity will be determined pursuant to, and in accordance with, FERC's regulations applicable to pipeline capacity release.

Staff filed its report in this case on April 28, 1998. In its report, Staff recommended that, in the event the Commission grants approval for WGES to participate in the pilot program in Case No. PUE971024, such approval of the affiliate's participation should be conditioned as follows. Participation should be under the same terms and conditions as provided for other suppliers. Rates charged to WGES should be either based on tariffs on file with the Commission or pursuant to FERC regulations. Billing services should also be tariffed to ensure that all participants are charged the same rate. Washington Gas also should be required to track actual costs (fully distributed and incremental) of providing services and conduct a study to determine the market prices of services provided to be filed with the Commission.

Washington Gas filed Comments of Washington Gas Light Company ("Comments") on the Staff Report on July 1, 1998. In its Comments, Washington Gas requested that the Commission approve WGES' participation in the pilot delivery service program in accordance

with Staff's recommendation, except as modified by the Commission's Final Order in Case No. PUE971024.

NOW THE COMMISSION, upon consideration of the application, representations of the Applicant, Staff's Report and the Comments thereto, is of the opinion and finds that approval of the transactions described herein subject to certain modifications would be in the public interest. Accordingly,

IT IS ORDERED THAT:

- 1) Pursuant to §56-77 of the Code of Virginia, Washington Gas Light Company is hereby granted authority to provide services described herein to Washington Gas Energy Services in order to facilitate the participation by Washington Gas Energy Services in Washington Gas' experimental delivery service program subject to the limitations set forth in the Commission's Final Order in Case No. PUE971024.
- 2) Participation by WGES shall be under the same terms and conditions as provided for other suppliers.
- 3) Rates charged to WGES shall be either based on tariffs on file with the Commission or pursuant to FERC regulations. Billing services shall be tariffed to ensure that all participants are charged the same rate.
- 4) Washington Gas shall track actual costs (fully distributed and incremental) of providing services and conduct a study to determine the market prices of services provided to be filed with the Director of Public Utility Accounting of the Commission.

- 5) The Company shall include in all general rate proceedings and Annual Informational Filings evidence that the pricing policy stated herein has been followed.
- 6) The approval granted herein shall have no ratemaking implications.
- 7) The approval granted herein shall not preclude the Commission from exercising the provisions of §§ 56-78 and 56-80 of the Code of Virginia hereafter.
- 8) Should there be any changes in the terms and conditions of the services provided by Washington Gas to WGES from those contained herein, Commission approval shall be required for such changes.
- 9) The Commission reserves the authority to examine the books and records of any affiliate in connection with the authority granted herein whether or not such affiliate is regulated by the Commission, pursuant to § 56-79 of the Code of Virginia.
- 10) The Applicant shall file an Annual Report of Affiliate Transactions with the Director of Public Utility Accounting of the Commission by no later than May 1 of each year, for the preceding calendar year, beginning May 1, 1999, subject to extension by the Director of Public Utility Accounting of the Commission. Information to be included in the Report is as follows: 1) affiliate's name; 2) description of each affiliate arrangement/agreement; 3) dates of each affiliate arrangement/agreement; 4) total dollar amount of each affiliate arrangement/agreement; 5) component costs of each arrangement/agreement where services are provided to an affiliate (i.e., direct/indirect labor, fringe benefits, travel/housing, materials, supplies, indirect miscellaneous expenses,

equipment/facilities charges, and overhead); 6) profit component of each arrangement/agreement where services are provided to an affiliate and how such component is determined; 7) comparable market values and documentation related to each arrangement/agreement; 8) percent/dollar amount of each affiliate arrangement/agreement charged to expense and/or capital accounts; and 9) allocation bases/factors for allocated costs. The report shall include all agreements with affiliates regardless of amount involved and shall supersede all other affiliate reporting requirements previously ordered.

- 11) If Annual Informational and/or General Rate Case Filings are not based on a calendar year, then the Applicant shall include the affiliate information contained in the Annual Report of Affiliate Transactions in such filings.
- 10) There appearing nothing further to be done in this matter, the same be, and it hereby is, dismissed.